U.S. & Oklahoma Economic Outlooks: Worsening, but Buoyed by Defense

Chad Wilkerson
Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
Purposes and Structure of the Federal Reserve System

• **Overall purposes of the Fed are to promote:**
  - Maximum sustainable economic growth
  - Low and stable inflation
  - National financial stability

• **Mission areas:**
  - *Monetary policy* – most visible role to the public, usually
  - *Bank regulation* – including lender of last resort
  - *Payments systems* – cash, checks, electronic payments

• **Monetary policy is set by the 12-member FOMC:**
  - The Federal Open Market Committee meets every 6 weeks
  - Voting members consist of:
    - the 7 Governors in Washington;
    - the New York Fed President;
    - 4 of the 11 other Fed presidents on a rotating basis
Federal Reserve Districts and Office Locations
The Kansas City and Oklahoma City Offices

• Headquarters in Kansas City
  • Nearly 1,000 staff involved in all mission areas
  • New building officially opened in June 2008

• Oklahoma City branch office
  • Staff and functions – 35 staff involved in economic research, bank examinations, and public and community affairs
  • Branch board of directors – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

• Oklahoma City branch board of directors
  • Chairman Steve Agee, President, Agee Energy, and Professor, OCU, Oklahoma City
  • Terry Almon, President, Oklahoma Community Capital Corp., Broken Arrow
  • Bill Anoatubby, Governor, Chickasaw Nation, Ada
  • Jim Dunn, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  • Fred Ramos, President, RGF, Inc., Oklahoma City
  • Doug Tippens, President and CEO, Canadian State Bank, El Reno
  • K. Vasudevan, Chairman, Service and Technology Corp., Bartlesville
The U.S. Economic Outlook

- U.S. economic activity has worsened markedly in recent months, pulling down all regions
- Credit markets show signs of improving, but forecasters are calling for weak economic activity through much of 2009
- Inflation pressures have eased, driven by falling energy prices and reduced wage pressures
Fourth quarter data showed a clear weakening of U.S. economic conditions.
Though conditions still vary across the country, growth is slowing everywhere.

Payroll Employment Growth, November 2008

% Change, Y-o-Y

-2.96 to -0.66
-0.65 to -0.16
-0.15 to 0.49
0.50 to 2.91

Source: Bureau of Labor Statistics
Short-term credit conditions are finally improving after worsening dramatically in September.

Source: U.S. Bureau of Labor Statistics
Still, lending standards on business and consumer loans have tightened.
And nearly all banks have tightened standards on mortgage loans

Net Percentage of Banks Tightening Mortgage Loan Standards

Source: FRB Senior Loan Officer Survey
Considerable uncertainty surrounds the near and intermediate-term economic outlook.

Source: U.S. Bureau of Economic Analysis
Meanwhile, inflation is expected to continue to ease after rising in early 2008. 

Source: U.S. Bureau of Economic Analysis
The Oklahoma Economic Outlook

- Oklahoma unemployment is now rising, though we’re still outperforming the nation

- Conditions in energy, agriculture, and manufacturing have weakened markedly

- The national situation bears watching, as do the direction of oil and gas prices
Unemployment claims are rising rapidly, changing the picture for the state.
The rig count has fallen sharply in recent months and is expected to fall further.
Expectations for farm capital spending have also dropped in Oklahoma

Source: FRBKC Agricultural Credit Survey
Most factories now plan to cut 2009 capital spending, in contrast to a few months ago.

Source: ISM, FRBKC Manufacturing Survey
So far, foreclosures have been relatively low in Oklahoma compared to the nation.
Oklahoma home prices continued to grow through Q3 2008, even as U.S. prices fell.
House price fundamentals were more in line in Oklahoma from 2000 to 2005.

Annual Growth in Per Capita Incomes and Home Prices
2000 - 2005

Source: U.S. Bureau of Economic Analysis, OFHEO
The defense sector has been increasingly important to both Oklahoma and the U.S. in recent years.

In both the near and longer-term, it appears defense could provide a boost in southwest Oklahoma.
National defense has grown in importance to the U.S. economy in recent years.
Indeed, defense spending grew more than the rest of the U.S. economy in 2008.

Real GDP growth in 2008, including components

Percent, annualized, Q4 2007 to Q3 2008

Overall GDP: 1.1%
GDP excluding national defense: 0.6%
National defense expenditures: 10.6%
Exports: 6.7%
Nondefense government expenditures: 1.6%
Business fixed investment: 1.0%
Personal consumption expenditures: (0.6%)
Residential investment: (18.8%)

Source: U.S. Bureau of Economic Analysis
The Tenth District has some of the nation’s largest military installations.

Defense Personnel Concentrations in the Tenth District

**Colorado Springs houses the following institutions:**
- Fort Carson (19,500)
- Peterson AFB (5,700)
- Schriever AFB (2,300)
- U.S. Air Force Academy (7,800)

Sources: U.S. Departments of Defense and Energy
And the District has a large defense presence overall.

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**Defense Spending as a Share of GDP, 2006**

- **Percent**
- **Percent**

- **U.S.**
- **District**
  - **NM**
  - **OK**
  - **KS**
  - **CO**
  - **NE**
  - **WY**
  - **MO**

- **Other defense expenditures**
- **Dept. of Energy defense activities**
- **Dept. of Defense contracts/grants**
- **Dept. of Defense payroll**

* Excluding Missouri

** Actual for U.S., estimated for District and states

Sources: U.S. Departments of Defense and Energy, Bureau of Economic Analysis
Several District states were big winners in the current BRAC round

* Tenth District Only

Source: U.S. Department of Defense
The types of defense concentrated in the region are expected to grow long-term.


- Emergency Funding
- Operation and Maintenance
- Military Personnel
- Procurement
- Research and Development

Source: Congressional Budget Office
Summary

- U.S. economic conditions have deteriorated with tightening credit, and the outlook is uncertain.

- Oklahoma conditions remain better, buoyed by housing and defense, but some recent high-frequency data have been worse for the state.

- Efforts to boost U.S. growth should benefit Oklahoma, but commodity prices bear watching.